

**City of New Orleans
Employees' Retirement System**

YOUR ROLLOVER OPTIONS

You are receiving this notice because all or a portion of the distribution you are receiving from the Employees' Retirement System (the "System") is eligible for roll over to an IRA or to another employer's retirement plan. This notice is intended to help you decide whether to roll over your benefit.

This notice includes general information about how to make a rollover and how your benefits will be taxed. Neither the trustees nor the staff of the System can provide you with individual tax advice or assist you in designating a plan or IRA to receive your rollover. You should consult your own advisor before you make these decisions.

GENERAL INFORMATION ABOUT ROLLOVERS

1. How does a rollover affect my taxes?

If you do not roll over your distribution, you will be taxed on the amount you receive. If you are not yet age 59 1/2, you may also be subject to a 10% penalty tax for early distribution.

If you make a rollover, your benefits will not be subject to tax until they are later distributed to you; you will not be subject to the 10% penalty tax now, but you may later be subject to the tax if you have not attained age 59 1/2 when your benefits are finally distributed.

2. What accounts can accept my rollover?

You can make a rollover to an IRA (an individual retirement account or individual retirement annuity) or to another employer's retirement plan that agrees to accept your rollover, including a tax-qualified plan, a section 403(b) plan or governmental section 457(b) plan. Rules adopted by the IRA or retirement plan that you designate will determine your investment options, fees, and rights to later payment. The amount that you roll over will become subject to the tax rules that apply to the IRA or retirement plan that holds your rollover. You should review the rules and procedures before you make your rollover.

3. How do I make a rollover?

There are two ways to make a rollover: you can make a direct rollover or a 60-day rollover.

- **If you make direct rollover**, the System will pay your benefit directly to the IRA or retirement plan that you designate. You should contact the IRA sponsor or the administrator of the employer plan you designate for more information about these rollovers.

- **If you make a 60-day rollover**, the plan will distribute your benefits to you, and you must deposit them in an IRA or employer plan within 60 days. The System is required to withhold 20% for federal income taxes (up to the value of cash and property you receive). If you want to roll over the entire value of your distribution, you must use other funds to make up the 20% withheld. If you do not roll over the entire distribution, the portion that you retain will be taxed and may be subject to the 10% penalty tax if you have not yet reached age 59 1/2.

4. What benefits and distributions are eligible for rollover?

DROP Account distributions and installment payments under an "Option Four" distribution are generally eligible for rollover. In addition, if you receive a refund of your contributions, that amount, which is paid in a single sum, is eligible for rollover. Benefits that are payable for your life or for your life with a survivor benefit for the life of your spouse or other beneficiary, called an "annuity," are not eligible for rollover.

Usually, you decide whether to roll over all or part of your eligible benefits, except that the following amounts cannot be rolled over:

- Distributions that are required because you have attained at 70 1/2; and
- Death benefits that must be distributed to your beneficiary under applicable law.

5. If I don't roll over, will I have to pay the 10% penalty tax?

If you are under age 59 1/2, you will be subject to 10% penalty tax for any distribution that you receive and do not roll over, except that the penalty tax does not apply to:

- Payments made after you separate from service if you are at least age 55 in the year of the separation;
- Payments made after you separate from service that are made at least annually in substantially equal amounts over your life or life expectancies (or the lives or joint life expectancies of you and your beneficiary);
- Payments on account of your disability;
- Death benefits;
- Payments made directly to the government to satisfy a federal tax levy;
- Payments made under a qualified domestic relations order (QDRO);
- Payments up to the amount of your deductible medical expenses; and
- Certain payments made while you are on active duty if you are a member of a reserve component called to duty after September 11, 2001, for more than 179 days.

6. If I make a rollover to an IRA, will the 10% penalty tax apply to distributions from my IRA?

Yes. If you receive a payment from an IRA before you are age 59 1/2, you will be subject to the penalty tax unless an exception applies. Generally, the exceptions are the same, whether the distribution is made from a plan or IRA, except that:

- There is no exception for separation from service payments made after age 55;
- The exception for qualified domestic relations orders (QDROs) does not apply;
- The exception for substantially equal annual payments made over your life or life expectancy (or joint lives or life expectancies) applies whether or not you have had a separation from service; and
- There are additional exceptions for (i) qualified higher education expenses, (ii) up to \$10,000 that is used to make a qualified first-time home purchase, and (iii) payments after you have received unemployment compensation for 12 consecutive weeks (or you would have received unemployment compensation but for your self-employed status).

7. Will I owe state income taxes?

You may. This notice does not describe any state or local income tax rules (including withholding rules).

SPECIAL RULES AND OPTIONS

1. What if I miss the 60-day rollover deadline?

Generally, the 60-day rollover deadline cannot be extended. The IRS has limited authority to waive the deadline under extraordinary circumstances, such as when external events prevent you from timely completing your rollover. To apply for a waiver, you must file a private letter ruling request with the IRS and pay a user fee. If you miss the deadline, you should consult with a tax advisor; the System cannot assist you in obtaining a waiver. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

2. What if I was born on or before January 1, 1936?

If you were born on or before January 1, 1936, and receive a lump sum (a single sum) distribution that you do not roll over, special rules for calculating the amount of your tax may

apply. For more information, see IRS Publication 575, Pension and Annuity Income.

3. Can I make a rollover to a Roth IRA?

Yes, subject to the rules summarized below. Rollovers from the System to another employer's plan that offers a Roth account are not eligible for the special Roth tax treatment.

You can roll over a payment made before January 1, 2010, to a Roth IRA **only** if your modified adjusted gross income is not more than \$100,000 during the year the payment is made and, if you are married, you file a joint federal income tax return.

The limits above **do not apply** to distributions made after 2009. If you want to make a rollover to a Roth IRA, but you are not eligible until after 2009, you can make a rollover to a traditional IRA and then, after 2009, convert your traditional IRA into a Roth IRA.

If you make a rollover to a Roth IRA, you must include the value of the rollover in your income. For distributions from the System made during 2010 that are rolled over to a Roth IRA, the taxable amount can be spread over a two-year period starting in 2011.

The 10% penalty tax for early distributions does not apply, unless you later take the amount rolled over out of the Roth IRA within five years, measured from January 1st of the year of the rollover.

If you make a rollover to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed, including earnings. A "qualified distribution" is a payment:

- That is made after you are age 59 1/2 or after you die or become disabled or that is made as a qualified first-time homebuyer distribution (but not more than \$10,000); and
- That is made after your IRA has been established for at least five years; to apply the five-year rule, count from January 1st of the year in which your first contribution was made to your Roth IRA.

Payments from a Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover and may be subject to the 10% penalty tax. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

4. What if I am a beneficiary or surviving spouse?

If you are a surviving spouse and you receive a death benefit, you have the same rollover options as a participant. If you make a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you elect to treat as your own is treated like any other IRA; payments made before you are age 59 1/2 will be subject to the 10% penalty tax (unless an exception applies) and required minimum distributions do not start until after you are age 70 1/2.

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% penalty tax. If the deceased participant started required minimum distributions (usually after age 70 1/2), you must continue the distributions. If the participant had not started required minimum distributions, you will not start until the year in which the deceased participant would have been age 70 1/2.

If you are a designated beneficiary other than a surviving spouse and you receive a death benefit, the only rollover option you have is to make a direct rollover to an inherited IRA. Payments from your inherited IRA will not be subject to the 10% penalty tax. You will be subject to required minimum distributions from the inherited IRA.

Payments made under a qualified domestic relations order, or QDRO, to a former spouse are generally subject to the same rollover options as participant rollovers, except that the 10% penalty tax does not apply.

If you are a nonresident alien and you do not make a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the System is generally required to withhold 30% for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as

may happen if you make a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

5. Are there other rules?

If a payment is one in a series of payments for less than ten years, your rollover election will apply to all later payments in the series, unless you notify the plan administrator of a different choice for later payments.

If your payments in any year are less than \$200, the System is not required to make a direct rollover and is not required to withhold for federal income taxes. You can make a 60-day rollover, however.

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, Armed Forces' Tax Guide.

FOR MORE INFORMATION

You can also find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, Pension and Annuity Income; IRS Publication 590, Individual Retirement Arrangements (IRAs); and IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans). These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM.

Remember, this notice is only a summary. The rules about rollovers and taxes are complex and not all are summarized in this notice. Consult your own tax advisor before you request a distribution. The trustees and the employees of the System cannot provide you with tax advice.

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